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C O N F I D E N T I A L SECTION 01 OF 03 CARACAS 003594

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TAGS: [EPET](#) [EINV](#) [VE](#)

SUBJECT: OVERVIEW OF PETROAMERICA

REF: A. CARACAS 03560

[1](#)B. CARACAS 03563

[1](#)C. CARACAS 02934

[1](#)D. CARACAS 02596

Classified By: Economic Counselor Andrew N. Bowen for Reason 1.4 (D)

[1](#)1. (U) SUMMARY: The Chavez administration's Petroamerica initiative envisions a Latin American energy integration model with Venezuela acting as the hub. The initiative is composed of three components: Petrocaribe (the Caribbean), Petroandina (Colombia, Bolivia, Ecuador, and Peru), and Petrosur (Brazil, Argentina and Uruguay). Petrocaribe is the only prong of the plan that is governed by an agreement that spells out key terms such as financing, pricing, and the installation of infrastructure. Petroandina and Petrosur to date have been characterized by a series of bilateral agreements that promote integration. Reftel A deals with the implementation of Petrocaribe to date. This cable will focus on Petroandina and Petrosur. END SUMMARY

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OVERVIEW OF PETROAMERICA  
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[1](#)2. (U) The Chavez administration's Petroamerica energy initiative is a proposal for continental energy integration. It is envisions Venezuela as the hub for Petroamerica's three sub-regional components : Petrocaribe (14 countries in the Caribbean), Petroandina (Colombia, Bolivia, Ecuador, and Peru), and Petrosur (Brazil, Argentina, and Uruguay).

[1](#)3. (U) As noted in Reftel A, Petrocaribe is governed by the Petrocaribe Energy Cooperation Agreement that clearly spells out financing terms and payment methods. In addition, the GOV has clearly spelled out its plans for upgrading existing infrastructure and building new infrastructure in the Caribbean. Neither Petroandina nor Petrosur are governed by a similar document. As a result, they have been characterized to date by a series of bilateral agreements that have been billed by the GOV as efforts to promote regional integration.

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PETROANDINA  
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[1](#)4. (U) The GOV has made little progress in implementing Petroandina to date. Of the four "member" countries in Petroandina, Venezuela has only concluded bilateral agreements with one: Colombia. On November 24 Colombia and Venezuela agree to construct a pipeline to transport gas from Colombia to Venezuela for the Paraguana Refining Complex. (NOTE: The western portion of Venezuela, which includes Lake Maracaibo, has suffered gas shortages for years. END NOTE) Construction is scheduled to begin in the first part of 2006 and to be completed in 24 months at an estimated cost of 230 million USD. In addition, PDVSA is seeking to purchase a 51 percent stake in a refinery in Cartagena for approximately 800 million USD. It also appears that the Government of Colombia will sell its share in the joint venture fertilizer and chemical company Monomeros Colombo-Venezolanos to a Venezuelan state-owned entity.

[1](#)5. (C) (COMMENT: Although Petroamerica and its component parts appear to be clearly defined on paper, in reality the lines can be quite blurry. For example, President Chavez during his recent meeting with Colombian President Uribe stated Venezuela was ready to extend the "mechanisms of Petrocaribe to Colombia as part of the Bolivarian Alternative for the Americas" (ALBA is the GOV's somewhat nebulous and largely ignored alternative to the Free Trade Agreement for the Americas with energy integration through Venezuela as one of its cornerstones.) Venezuela has also expressed interest in upgrading the Villa Elisa refinery in Paraguay, but Paraguay is not a member of either Petroandina or Petrosur. END COMMENT)

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PETROSUR  
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[1](#)6. (U) Although the GOV has signed a series of bilateral agreements with Petrosur member states, Petrosur still falls far behind Petrocaribe in terms of implementation. Argentina and Venezuela signed a Memorandum of Understanding this month for the construction of a USD 4 billion, 6,000 kilometer gas pipeline between the two countries during President Kirchner's November 21 visit to Venezuela (Reftel B). Energy

Minister Rafael Ramirez stated at the signing ceremony that the MOU was a significant step in the development of Petrosur and said both countries agreed to carry out studies to see if the gas pipeline project could eventually include Uruguay, Paraguay, and Brazil, as well as Argentina and Venezuela. PDVSA and the Argentine oil company Energia Argentina (Enarsa) also signed a contract for the establishment of a joint venture that will supply five million barrels of gasoil per year to the Argentine market. The contract is a renewal of a previous contract. Enarsa and PDVSA are also supposed to open a string of service stations in Argentina. PDVSA has also signed a letter of intent to begin negotiations with the Argentine firm Rhasa for its purchase. Among Rhasa's assets are a refinery, a terminal in the port of Aguas Profundas, 63 service stations in Argentina, and a transport fleet.

17. (U) The GOV and the Uruguayan government have signed a letter of intent to evaluate PDVSA's participation in the Uruguayan energy sector. Under the agreement, a feasibility study will be carried out on the expansion and upgrading of the La Teja refinery. The refinery currently has a daily capacity of 50,000 barrels of light crude. The study will examine whether the capacity of the refinery can be doubled. The additional capacity would be devoted to the refining of heavy and extra-heavy Venezuelan crude. Energy Minister Ramirez has publicly said that the amplification of PDVSA's operations in Uruguay and Argentina are "the key to consolidating the energy integration of the South".

18. (U) PDVSA and Petrobras have also agreed to begin studies on the construction of a refinery in Pernambuco, Brazil with a capacity of 200,000 barrels per day. The refinery is expected to cost 2.5 billion dollars with costs being split equally between PDVSA and Petrobras. It is expected to be on line by 2011. Venezuela and Brazil are also studying the construction of a gas pipeline that would run from Ciudad Bolivar in Venezuela to the city of Manaus in Brazil.

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COMMENT  
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19. (C) On paper it would appear that the GOV is making progress on making its Bolivarian dream of regional energy integration a reality. However, closer examination reveals that actual implementation of the GOV's grand design for continent-wide energy integration with Venezuela as the hub is at this point little more than a pipe dream. As laid out in Reftel C, the GOV and PDVSA still face a myriad of operational problems that threaten production levels. These operational difficulties are compounded by the GOV's practice of squeezing PDVSA for funds for President Chavez's social development agenda in anticipation of the presidential elections in December 2006. In addition, as noted in Reftel A, there are also questions about PDVSA's ability to adhere to shipping schedules. Finally, as was the case in PDVSA's latest strategic plan (Reftel D), the numbers that the GOV and PDVSA bandy about for Petroamerica frequently conflict. For example, PDVSA claims that it has budgeted approximately 2.2 billion USD for Petroamerica related refinery projects. However, the sum of the individual projects differs markedly from this amount. PDVSA's figures for individual projects can often range widely. For instance, the price tag for the Pernambuco refinery is listed as 2.5 billion USD in some PDVSA documents and 3 billion USD in others.

110. (C) As noted in Reftel A, we fully expect the GOV to continue talking about the various components of Petroamerica for propaganda purposes as well as to advance its politically-driven trade and regional integration agendas. It remains to be seen how many of the projects actually get off the ground. As critics have noted here in Venezuela, the gas pipeline to Argentina does not make sense commercially due to the sheer distance involved as well as the fact that there are potential suppliers far closer to Argentina. It is not clear how economically viable the pipeline to Brazil is but critics have noted it raises significant environmental issues. In order to build a pipeline to Brazil, the builders would have to construct a pipeline and roads over a significant distance through virgin jungle. In addition to the environmental destruction produced by the pipeline and roads, the development that would inevitably result would also cause environmental destruction. We believe that the majority of the projects under Petroamerica that do see the light of day will do so because the GOV's partners in the project have a sound, economic reason for pursuing the project rather than a political motivation for increased energy integration in Latin America, which is what is motivating Chavez. Post welcomes comments and reporting from posts in Petroamerica member states.  
Whitaker